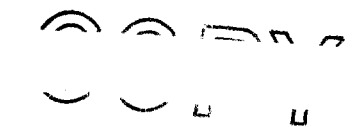


**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20054**



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In the matter Of)

Federal-State Joint Board on)
Universal Service)

CC Docket No. 96-45

JUN 12 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Federal-State Joint Board on)
Universal Service, Forward-Looking)
Mechanism for High Cost Support)
for Non-Rural LECs)

CC Docket No. 97-160

DA 98-848

**REPLY COMMENTS OF ITCs, INC.
ON SELECTED ISSUES REGARDING THE FORWARD-LOOKING
ECONOMIC COST MECHANISM FOR
UNIVERSAL SERVICE SUPPORT**

ITCs, Inc., an economic cost consultant to independent telephone companies serving America's rural areas, on behalf of Chariton Valley Telephone Corp., Cunningham Telephone Company, ETEX Telephone Cooperative, Mogan Dial, Inc. - Kansas, Mogan Dial, Inc. - Missouri, Moultrie Independent Telephone Company, Inc., Plains Telephone Cooperative Association, Inc., Steelville Telephone Company, South Central Telecommunications of Kiowa, South Central Telephone Association - Kansas, South Central Telephone Association - Oklahoma, Tri Country Telephone Association, Inc., TCT West, Inc. and Wiggins Telephone Association, through counsel, respectfully respond to the Commission's invitation for comments in the above captioned matter released May 4, 1998.

Introduction

After review of several comments filed in this matter, ITCs remains greatly concerned about the direction these proceedings are taking and possible outcome. For example, it continues to appear that the proponents of the two "cost" models in question have underlying agendas relating to levels

of anticipated USF, either to be paid into or collected from the process. These agendas appear to impact the reasonableness of assumptions made, and severely complicates the decision making process for the Commission. In addition, as the modeling process drifts further and further away from reality, and as more and more options are made available to the user, opportunities to make "adjustments" will lead to perceived abuses, and questions of integrity will cast the shadow of dubiousness on the resulting USF process.

The validity and integrity of the USF process is of critical importance to small rural telephone companies where, for decades, the flow of support has made the public policy of universal service a profound reality. It is the certaintude of support, not a bureaucratic policy, nor dedicated intentions, nor edicts, that ensures service. For those who truly understand how it is that universal service goals are achieved and their palpable benefit to the rural users and communities, the rhetoric attendant to a "public interest" benefit casts doubt on real intent.

This leads to the question of why such an effort is being undertaken, particularly with so many obvious frailties. The modeling process has reached a point of compounded complication and seems to have taken on a life of its own. Hundreds of persons in the industry, state and federal government, consultants, and lawyers have become involved in learning, understanding and evaluating the proposed models and the a process when, in fact, the very cost of providing telecommunications services have been and continue to be known. Finally, is there assurance that the consuming public would either appreciate these burgeoning expenditures if they were aware of these efforts? Furthermore, and foremost, will the Commission be able to demonstrate any public benefit?

Historically, there have been two critical ingredients in the administration of the universal service funding program, consistency and equity. Accordingly, even though there have been some public assurances that the present rural company USF program is not in need of repair, there remains strong concerns that (1) modeling efforts could well find their way into or influence the rural company process and (2) that the results of this effort could violate the principles of consistency and equity with the result that rural Americans could experience notable differences in the quality of service, rates and their ability to function in the "information age". This would be diametrically opposed to the mandate of the Telecommunications Act of 1996.

It is because of these concerns that ITCs is compelled to offer the following.

Customer Location Data

If it becomes manifest that the process requires customer location data and that the cost is warranted, then the process should focus on data integrity. From what has been made available in the record thus far, it appears the Worldcom suggestion related to "geocoding"--using global positioning satellite (GPS) devices would produce data with the greatest degree of accuracy, if properly used. The effort would probably involve little more than that expended in one month by an electric meter reader.

However, ITCs remains concerned that an effort of even this nature should not be undertaken unless it can be demonstrated to be an absolutely necessary element in the process.

Maximum Copper Loop Length.

The companies served by ITCs, after consultation with their engineering consultants and the RUS are using a 12kft architecture. First, reliability and other service standards can not be met using an 18kft approach; second, rural local exchange carriers must ensure that all locations have the

capability of advanced services, something not yet available in 18kft environment; and third, the added costs of supporting an 18kft environment usually exceed the cost of an additional DLC.

Given the above, ITCs remains of the opinion that an 12kft architecture is the most realistic approach, at least for the foreseeable future.

Defining "Households"

There should be only two considerations in determining and using a definition of households. Given that a forward looking model is intended to approximate the costs a new entrant will experience, yet also given that a USF program should not be based on existing customer counts, an appropriate alternative would be to only count households with telecommunications service, but also ensure cable sizes contain an adequate and reasonable level of spare facilities.

The conclusion that there are more unoccupied dwellings and households without telephones in remote areas on a percentage basis is correct. This is a result of many considerations that are of a rural socio-demographic nature as well as the natural resource and agricultural nature of making a livelihood. But, one can not, however, ignore urban blight if indeed it is a consideration in any modeling effort. In other words, abandoned tenements as well as locations occupied by those who do not have service as a result of poverty can be significant in certain urban areas.

Revenues to be Included and Level of the Benchmark

It is here also that ITCs is concerned about the direction being taken in this proceeding. ITCs continues to agree with the position of a majority of the state members of the Joint Board in their conclusion that the Commission should establish a benchmark based on cost rather than revenue (Second State Proxy Models Report at 14).

ITCs vigorously urges the Commission to reconsider its decision based on revenues. First, the use of revenues is fraught with frailties; the mix of revenues sources varies from company to company and will often be a function of geographical location, variations in toll and local calling plans and scopes, focal points of educational, economic, religious and government activities as well as economic status. Given these variables a consensus will probably never be realized. Further, individual revenue producing services will increasingly become priced based in the marketplace, and vary with competitive pressures. Keeping in mind again that two of the key ingredients in a sound USF program are consistency and equity, the use of revenues can only result in limited success. ITCs stresses that a benchmark of costs, which corresponds with the fact that high costs are the target of USF support and which are reasonably consistent, predictable and identifiable in like circumstances, should be used in the process.

A second serious problem with the use of revenues is the continued distinction between residential and business services. The identification and use of the differences is absolutely incompatible with a forward looking cost regime in that there are no differences in the costs to serve these segments. To set two different benchmarks is a return to a value of service pricing concept and continues the existence of an implicit subsidy, that is, a business to residence support flow. This forces USF recipients to price above cost and invites competition at the expense of the incumbent, a situation that clearly violates the 1996 Act. This entire area must be re-examined if a sustainable program remains the object of the Joint Board.

Summary

For all the reasons indicated above, ITCs wishes to ensure the modeling process, as currently defined, does not creep into the mechanisms involved in providing USF support to small rural telephone companies. Their vulnerability is simply too great. Moreover, the vagaries of the process itself and the growing cost to the public make modeling highly suspect.

Respectfully submitted,

ITCs, Inc.

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June 12, 1998

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I, Tracy Lynn Trynock, hereby certify that on June 12, 1998, copies of the foregoing "Reply Comments of ITCs, Inc. On Selected Issues Regarding The Forward-Looking Economic Cost Mechanism For Universal Service Support" have been served by U.S. First Class Mail, postage prepaid, or by Hand Delivery upon the following:

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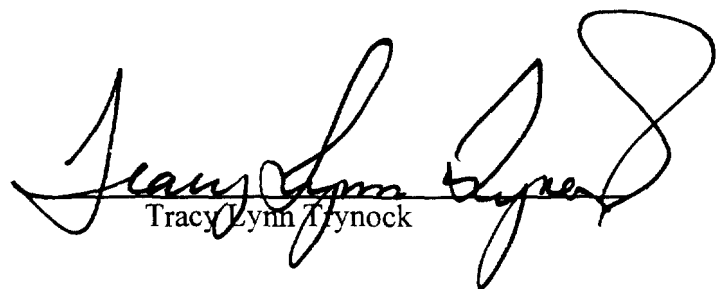
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